

10 Things You Should Know About Bitcoin

You may be hearing a lot about Bitcoin lately and wondering what it is and if it's right for you. Here are 10 facts that can help you understand its benefits and risks.

- 1. Crypto What?** – Cryptocurrency is a new type of digital currency that's an alternative to the US dollar and other traditional currencies. Bitcoin was created in 2009 and is the largest and oldest cryptocurrency.
- 2. Mystery Man** – Bitcoin was the brainchild of Satoshi Nakamoto, a pseudonym used by the author of a white paper written in 2008. Several people have claimed to be Nakamoto, but his or her true identity remains a mystery.
- 3. Fasten Your Seatbelts** – Bitcoin's dramatic daily price swings in 2020 were significantly higher than the stock market's daily price swings in 2008—the most volatile year for stocks on record due to the global financial crisis (see **FIGURE 2**).
- 4. Put on Your Thinking Cap** – Bitcoin is created when programmers solve complex computations that are added to the blockchain—the public ledger that records all Bitcoin transactions. This process, known as mining, requires a lot of time and significant computing power.
- 5. Finite Supply Creates Scarcity** – The maximum number of Bitcoins that will be created through mining is 21 million. As of January 2021, there are 2.4 million Bitcoins left to be mined.¹ This finite supply is one reason why some people believe Bitcoin will eventually increase in value over time.
- 6. What's in Your Digital Wallet?** – Bitcoins are purely digital and stored electronically in programs called wallets that are secured by passwords. Once you transfer Bitcoin to someone else, there's no way to retrieve it or dispute the transaction.
- 7. Save Some Gains for Uncle Sam** – The IRS treats Bitcoin as property rather than currency. If you receive Bitcoin as compensation, it's considered taxable income. You also need to calculate your gain or loss *every time* you spend Bitcoin. Short-term gains (<1 year) are taxed as ordinary income, and long-term gains (1 year or more) are taxed as capital gains. Tax losses are treated the same as stocks.
- 8. Don't Lose Your Password!** – Around 20% of Bitcoin, valued at approximately \$140 billion, is lost forever because people forgot their passwords.² Download our free "Get It Together" worksheet available on hartfordfunds.com to organize all your financial records, including cryptocurrency passwords.
- 9. Value Is in the Eye of the Beholder** – Unlike stocks and bonds, Bitcoin doesn't have any intrinsic value based on corporate earnings or cash flows. But as with traditional currency, it has value as long as people accept it as currency. Platforms such as PayPal and Square accept payments in Bitcoin, but a conversion to a fiat currency is required before the payments settle.
- 10. Growing Demand** – Institutions and wealthy investors are increasingly taking positions in Bitcoin as an alternative asset class similar to gold (some call it digital gold).

¹ Source: beincrypto.com, "How Many of the 21 Million Bitcoin Are Left?" 1/13/21

² Source: New York Times, "Lost Passwords Lock Millionaires Out of Their Bitcoin Fortunes," 1/12/21

Client Conversations

FIGURE 1: Bulls and Bears Weigh in on Bitcoin

Bitcoin Bulls Say	Bitcoin Bears Say
Bitcoin belongs to the people; it can't be manipulated by central banks that devalue their currencies by printing more money	Bitcoin has no intrinsic value; it could potentially lose all its value and become worthless
The limited supply of Bitcoin will result in higher demand once the final supply of Bitcoin is mined	A better cryptocurrency could come along, which would decrease the value of Bitcoin
Bitcoin could eventually become a fiat currency similar to the US dollar	Unless regulators across the world accept Bitcoin, which is highly unlikely, it will never become a fiat currency
If wealthy individuals and institutions allocate 2-3% of their portfolios to Bitcoin for diversification, the demand will soar	A handful of people currently own a large portion of Bitcoin; they could quickly devalue it if they decide to unwind their positions
Once SEC hurdles are cleared, exchange-traded funds and other investments focused on cryptocurrencies could provide demand and liquidity to Bitcoin	The UK banned sales of certain crypto-derivative products to retail investors; this highlights the regulatory risks that could put downward pressure on Bitcoin's price

FIGURE 2: Bitcoin Was More Volatile in 2020 Than Stocks Were in 2008



Data Sources: Morningstar and NYSE Bitcoin Index, 1/21. Stocks are represented by the S&P 500 Index, a market capitalization-weighted price index composed of 500 widely held common stocks. | **Past performance does not guarantee future results.** Indices are unmanaged and not available for direct investment.

Your financial professional can help you decide if cryptocurrency is right for you.

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